

# **SPENDING AFFORDABILITY ADVISORY COMMITTEE REPORT**



**Fiscal Year 2020**

**Spending Affordability  
Advisory Committee**

**Citizen Committee Members**

Roger Barnes, African American Roundtable of Howard County  
Richard Clinch Ph.D.  
Lynn Coleman, Howard Community College  
George Davis  
Christina Delmont-Small, Board of Education of Howard County  
Khaleda Hasan, Ph.D.  
Jetheda Hernandez  
Nikki Highsmith Vernick, The Horizon Foundation  
Shaista Hira  
Daraius Irani, Ph.D.  
Rafiu Ighile, Howard County Public School System  
Tonya Kennon, Howard County Library System  
Elizabeth Edsall Kromm, Ph. D., Howard County General Hospital  
Barbara K. Lawson  
Jennifer Mallo, Howard County Board of Education  
Milton Matthews, Columbia Association  
Leonardo McClarty, Howard County Chamber of Commerce  
Keith Ohlinger, Farm Bureau  
Garnet Person  
Steve Poynot  
Joshua Tzucker  
Beverly White-Seals, Community Foundation of Howard County  
Lisa Wissel, Howard County Association of Realtors

**Government Officials**

Holly Sun, Ph. D, Budget Administrator, Committee Chair  
Caitlin Connors, Internal Auditor  
Craig Glendenning, Howard County Auditor  
Janet Irvin, Director, Department of Finance  
Jennifer Jones, Deputy Chief of Staff  
Lonnie R. Robbins, Chief Administrative Officer  
Larry Twele, Howard County Economic Development Authority

**Howard County Maryland  
Spending Affordability  
Advisory Committee  
Report for Fiscal Year 2020**

**March 2019**

**Purpose**

County Executive Calvin B. Ball, Ed. D., renewed the Spending Affordability Advisory Committee (the “Committee”) through Executive Order in December 2018. The County’s Executive’s charge to the committee was to:

1. Review in detail the status and projections of revenues and expenditures for the County, not only for fiscal year 2020, but also for fiscal years 2021-2025.
2. Evaluate future County revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data that the Committee considers applicable.
3. Evaluate expenditure levels with consideration of the long-term obligations facing the County, and the best way to pay for them.

The Committee shall present to the County Executive on or before March 1, 2019, a report including:

- a. Projections of revenue for the upcoming fiscal year;
- b. A recommended level of new County debt authorization;
- c. The anticipated effect of the Committee’s budget recommendation on future budgets;
- d. Other findings and/or recommendations that the Committee deems appropriate.

## EXECUTIVE SUMMARY

The Spending Affordability Advisory Committee (“Committee”) reviewed the revenue projections and expenditure requests for FY 2020 and beyond. Based on these presentations the Committee notes that although Howard County (“County”) should average 2~3% revenue growth over the next few years, the current expenditure requests are considerably outpacing that growth. The Committee also noted that revenue projections are based on the potential for a weakening national economy over the next few years, but do not fully represent the potential revenue and expenditure impact related to the Adequate Public Facilities Ordinance (“APFO”) guidelines adopted in 2018. As observed in previous years, revenues have not kept pace with the growing demands for County services and capital investment. Our elected officials have had to make and must continue to make tough decisions as it relates to the priorities for funding in our County.

We live in a County with changing demographics, anticipated reductions in federal and state expenditures due to recent tax cuts, as well as a possible economic slowdown in the next few years. All of these factors, plus others will affect the County’s long-term outlook. As the County’s population continues to age and change, there are significant challenges we must meet including: support of our outstanding public education system; continued capital investments for roads, schools and other infrastructure such as upgrades to and/or replacement of the County’s correctional facility; funding for safe communities; and paying our long-term obligations (pension, retiree health benefits, and debt service payments). At the same time, we are committed to sustaining the quality of life and advantages that distinguish the Howard County, Maryland.

The Committee received and reviewed reports from many of the County agencies and education entities. These presentations outlined more than \$232 million in capital needs for FY 2020 to be funded through General Obligation (GO) bonds. Based on the current projections for revenue and expenditure growth, without any significant changes, the County will struggle to meet many of the requests. It is imperative that a sustainable long-term capital investment plan be developed to help policy makers prioritize spending to meet the needs of the citizens of the County.

Without changes to revenues or expenditures, current patterns of spending are unsustainable in the long-term. We believe that a significant challenge for policy makers will be to balance pending fiscal constraints against historical levels of service, so that the needs of the population are met. It is important for community and government leaders to understand the fiscal impact of national, state, and local policies, and their effects on revenue sources, economic growth, and the spending and investment decisions of County residents and businesses. All of which determine the County’s ability to plan and invest in its future.

Despite all the challenges, the Committee believes the County is being presented with an invaluable opportunity for all responsible parties to come together and develop a comprehensive and proactive plan for revenue, expenditure, and capital investment over the next decade to help lead our County into a sustainable and successful future.

## KEY ISSUES & POTENTIAL SOLUTIONS

The Committee is tasked with making recommendations to the County Executive on revenue projections, the debt ceiling, long-term fiscal outlook, and other recommendations on County revenue and spending patterns. The Committee met weekly from mid-January through late February 2019. During that time, the Committee was briefed by economists, multiple County agencies, and local educational institutions. These meetings helped the Committee develop a better understanding of the County's economic outlook, revenue sources, debt level, demographic trends, economic development opportunities, as well as long-term fiscal projections and various operating and capital needs. The Committee notes certain major fiscal issues the County faces and makes the following observations and recommendations:

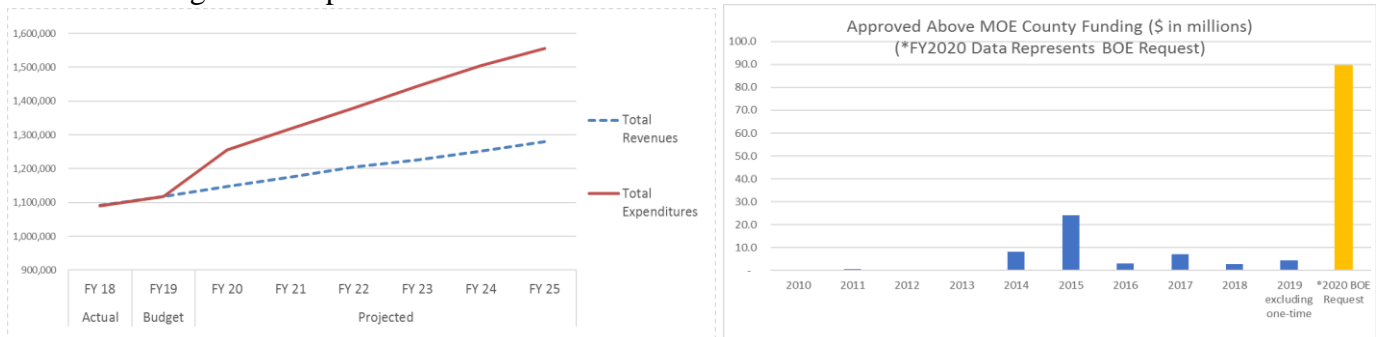
### Issue 1. Operating budget revenue level and growth lags far behind requested expenditure growth

General Fund revenue growth has slowed to less than 2% in recent years. Actual revenue growth was only \$19 million and \$14 million, respectively, in FY 2017 and FY 2018. Moderate growth of 2.7% in FY2020 is forecasted based on 2.4% growth in assessable base and a moderate growth in personal income tax.

However, several factors continue to stress the personal income tax, including: a tight labor market resulting in weak employment growth (below 1%); continued net wage loss between residents moving out and moving into the county; and, a decline in median household income per latest data. Furthermore, both home sales volume and prices dropped in recent months, resulting in lower recordation taxes.

In the foreseeable future, increases in revenue will be further stressed by any potential economic recession, estimated by some economists to occur in 2020-2021, which could cause a loss in revenues of \$24-\$40 million. In addition, the APFO amendment passed in 2018, which will delay planned new development in the moratorium period during 2022-2025 (by 75%) and beyond, is projected to result in foregone revenues of \$138 million in next six years, including \$82 million in the operating budget and \$56 million in designated Capital Investment Plan ("CIP") funding, such as transfer tax, school surcharge and road excise tax. As a result, County revenue growth is projected at 2.2% over the next six years, less than half of the requested or projected increases in expenditures. The consultant is still working on the impact of APFO amendment on future County expenditures, which was not available to the Committee when the report was developed.

While revenue growth over the last decade slowed significantly, expenditure requests have consistently escalated. There is a significant and growing gap between revenues and spending requests, making it increasingly difficult to bring desired funding and fiscal reality together. In FY2020, the gap between projected revenues and requested expenditures will reach a historical **-\$108 million** and will likely reach **-\$275 million** by FY 2025 without corrective actions. Past County projections presented to this Committee had already indicated that a structural gap was on the horizon even before the adoption of APFO. APFO has now hastened the need for the County to take corrective actions to ensure the needs of the county are being met without significant impact to current levels of services.



## **Issue 2. Capital budget continues to see requests 2-3 times affordable level; debt capacity depleted**

In FY 2020, General Obligation (“GO”) bonds-supported capital projects requested by education entities and County agencies totaled \$232 million, about 2.5 times the annual approved amount (\$90~\$97 million) in the past four years. The County still has \$217 million of previously authorized, but unissued GO bonds, in the pipeline, crowding out future debt capacity. The County’s Department of Finance projected debt service payments as a percentage of total General Fund revenues will continue to grow over the next 10 years and will likely exceed the policy ceiling of 10% as soon as FY 2021. Approximately \$10-\$12 million is projected to be needed to support the County’s annual debt service payments. Given the projection for annual growth in revenues, this scenario leaves fewer General Fund dollars available to support all other County Services.

Additionally, several revenue resources designated for the CIP largely have been exhausted, partly attributable to historical decisions of issuing bonds at a level that utilizes most or all revenues in the following 20 years. The County’s bonding capacity was further stressed by the APFO amendment. Not only are the combined public schools facilities surcharge and building excise tax insufficient to support any new capital projects in the next 20 years, they are insufficient to support existing debt issued years ago. The transfer tax also has only marginal capacity remaining to support a minimum of capital needs.

### **Key Solutions**

- **Tackle revenue options:** Approximately 90% of County General Fund revenues are from property taxes and personal income taxes. At 3.2%, the County’s personal income tax rate is already at the maximum level allowed. The County’s property tax rate, including fire tax, is also among the highest in the State. Currently, the combined impact of other revenue sources is severely limited. The County must consider other taxes and fees for new/additional revenue sources in order to maintain critical service needs in operating budget. In addition, the County also must look at modifying the existing transfer tax rate, school surcharge, road excise tax and other existing revenue resources for the CIP.
- **Prioritize and balance service needs:** With limited growth in revenues, the County must assess, prioritize, and address the various service needs of the County. Education has been, and should remain the top priority for the County, with growing student enrollment (1.5% per year) and rising needs from those having financial and health challenges. However, prioritizing education must not compromise other services needed by the community. For example, the County’s over 65+ population has grown 3~4 times faster than student enrollment growth and total population growth, respectively, and is expected to double in two decades. Moreover, total population growth has slightly exceeded student enrollment growth. Howard County is a full-service county, and must provide resources to households without students; services to those in need; and community security and safety and quality of life for everyone.
- **Address immediate needs in Fire Fund through tax increase and ambulance fee:** The Fire Fund has already incurred a structural deficit due to a slowdown in the property tax base and increased staffing requirements for new stations to address service needs. If no action is taken, the fund balance in the Fire Fund is projected to be at a deficit by FY 2020. Preliminary projections from the County indicate that to keep Fire Fund from going into insolvency over the next several years requires a fire tax increase combined with a new ambulance (EMS) fee. The Committee supports these actions.
- **Prioritize capital needs and bring them more in line with fiscal reality:** The Committee urges the County to carry out comprehensive long-term capital planning. This includes: evaluating and deciding the feasibility of maintaining, renovating, and repairing existing infrastructure and the desire to initiate new capital projects; balancing service needs in collaboration with key stakeholders and

reduce total requests closer to fiscal reality; and continuing to examine previous authorized bonds with a focus on identifying opportunities to close or reduce lower priority projects to free up capacity.

## **I. RECOMMENDATIONS**

### **1. Projections of Revenue for Fiscal Year 2020**

**The Committee recommends development of the FY 2020 budget based on projected revenue of \$1.15 billion, an increase of 2.7% (\$30 million) over FY 2019 budget (excluding use of fund balance).**

The County is required by law to adopt a balanced budget. The Committee concurs with the Budget Office's projection for FY 2020 of a budget increase of no more than 2.7% over FY 2019 budget. However, due to various factors, such as the potential impact of the APFO, growing speculation of a recession in 2020-2021, and the general slow growth of key revenues such as the property tax, personal income tax, recordation tax, and license and permit fees, the Committee believes that the County should plan for shortfalls during these years. Therefore, the Committee recommends in FY 2020 that the County continues to spend below projected revenues in order to increase fund reserves. The Committee believes this strategy can help the County better manage the uncertainty and potential downturn of revenues and mitigate the potential impact on services. The Committee believes that the County and all its stakeholders must come to terms with the current fiscal climate and the impending uncertainty on the horizon and take immediate and proactive actions to manage and control spending.

### **2. A Recommended Level of New County Debt Authorization**

**The Committee recommends limiting authorized new General Obligation bonds in FY 2020 to \$70 million.**

The Committee is recommending that the County lower its new General Obligation ("GO") bond authorization to \$70 million for FY 2020. As stated above, the County is facing significant fiscal challenges including its debt capacity being rapidly depleted by previous debt decisions and uncertainty of future revenue growth due to, among other factors, projected foregone revenues due to the APFO amendment. The Committee had an in-depth discussion on this subject and found it difficult to recommend a specific number, partly due to the difficulty in understanding the exact impact of different authorized amounts on annual debt services (because of the lagged effect between authorization and debt issuance and payment), and partly due to the struggle to balance the needs between affordability and critical infrastructure needs without a comprehensive and realistic multi-year capital plan.

The Committee believes elected officials, residents, and all other stakeholders need to have a discussion on the County's new fiscal reality with APFO and use this opportunity to work together to develop priorities that will be the core of a sustainable and realistic long-term CIP. The Committee believes that the County needs to balance the renovation or maintenance of existing facilities and infrastructure and the addition of new projects. While the County needs to continue its support for high priorities such as education, it should avoid "kicking the can down the road" for certain projects that are not as visible but have critical needs. For example, the need for a new detention center to replace the existing one that is undoubtedly having security, structural, and potentially health related issues for inmates and County staff. The Committee believes that these significant CIP challenges also offer a unique opportunity for the County to take a proactive and strategic approach to address immediate and long-term needs and communicate with key stakeholders.

It is important that the County's overall debt burden is maintained at a reasonable level without impacting the County's capacity to support various service priorities identified in the operating budget. It also will help to preserve the County's AAA credit rating, allowing the County to borrow at the most favorable terms and

attract investors and residents continuously.

### **3. Long-Term Fiscal Outlook and Issues**

A preliminary multi-year revenue and expenditure model developed by the Budget Office suggests that County General Fund revenues will grow 1.7-2.6% in the out years through FY 2025, averaging 2.2% per year in this period. This projection is lower than previous projections and factored in the potential impact of a (mild) recession in 2020-2021 and the projected impact of APFO on key General Fund revenues sources. The Committee suggests that the County develop a multi-year fiscal plan that strategically balances service needs and resources to build a sound fiscal structure that supports the County's priorities. While the recession is not a foregone conclusion, and the County continues to project positive (although moderate) revenue growths in FY 2020 and beyond, the Committee recommends that the County be more conservative and count on lower rates of revenue growth in the out years to reflect the rising uncertainty in the national, state, and local economic landscapes as well as unknown impacts of Federal and State policies.

### **4. Other Recommendations that the Committee Deems Appropriate**

#### **Revenue**

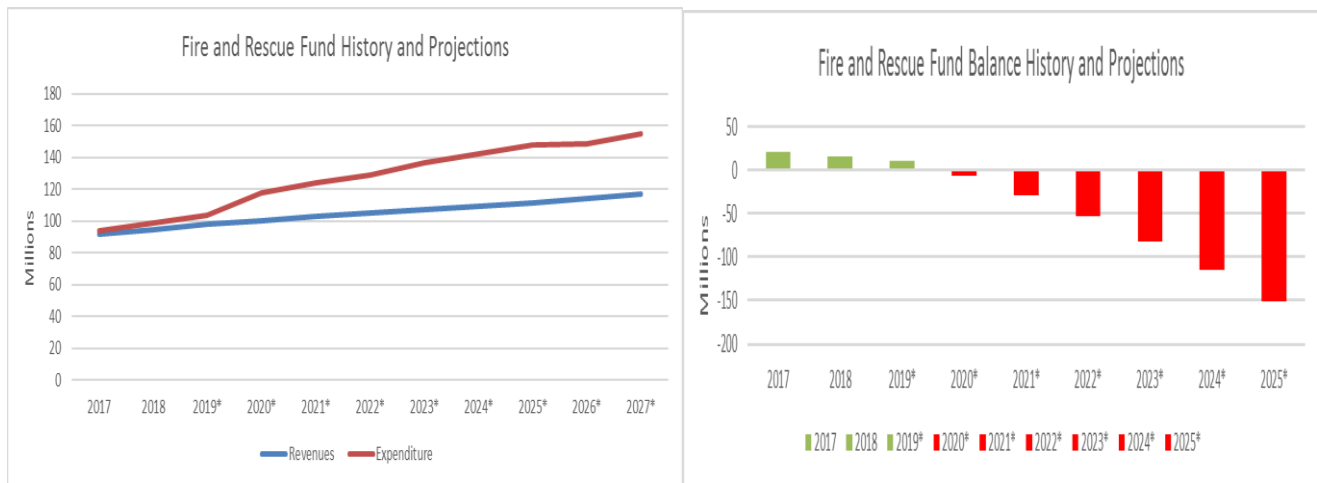
The Committee urges the County to review all taxes and fees in order to determine if there is room for potential increases. The Committee also urges the County to look at other taxes and fees that are not currently being imposed but are being utilized by other jurisdictions to determine if it feasible within the County without significant consequences. Before APFO amendment, core services and capital needs were already set to outpace projected revenue growth. The APFO amendment passed last year has accelerated the need for the County to take action to increase revenues, given the other option is to eliminate services and personnel to reduce spending. The Committee suggests that the County review the following revenue sources as an alternative to raising the property tax, which is among the highest in the state, and the income tax, which is already capped by the state, the County's two largest revenue sources. These options include:

- **Fire and Rescue Fund – Ambulance Fee & Fire Tax:** The Committee is pleased that the County has adopted its recommendation to implement an ambulance/EMS transport fee in FY 2020. Currently, Howard County is the only jurisdiction in the state that does not impose the fee. The fee reimburses the Department of Fire and Rescue Services for medical services rendered and is paid by private insurance companies and other providers. The County has taken steps to ensure that emergency medical services rendered to residents and non-residents in the county remains consistent and a commitment to efficient and effective medical care will remain the Department's highest priority. The fee is expected to generate approximately \$3 million in revenues in the Fire and Rescue Fund.

While the Department has taken this step forward, revenues generated by the fee will not be enough to sustain the needs of the Department moving forward. As presented by the Budget Office and the Fire Department, there is a structural imbalance between revenues and expenditures, causing a -\$7 million deficit in the Fire and Rescue Fund at the end of FY 2020 and growing to approximately -\$158 million by FY 2025. The last increase to the Fire and Rescue Tax was implemented in FY 2013. Since then, the Department has opened and staffed the Glenwood Station, added support to the Lisbon Fire Station, and is set to open, equip, and staff the Merriweather Station and the Waterloo Station. The Department is also planning on opening a station in North Columbia in FY 2023 that will require staffing and equipment. The Department's growth is a direct response to the growth of the County. The Department has already reached a breaking point and the tax increase is required. The Committee is recommending that the County increase the Fire and Rescue Tax rate to a level that is necessary for the Department to keep up with the demands of the County through FY 2025 and beyond. The Committee is also recommending that



the County and the Department create a long-term plan projecting critical needs for sections of the County that are known to be experiencing revitalization and population growth, ensuring that this tax rate increase will cover the needs of those areas without a further adjustment to the tax in foreseeable future.



- Other Revenue Enhancements:** The Committee discussed other various revenue enhancements for the County to review. The first being a potential increase to the recordation tax. The recordation tax is imposed on instruments of writing conveying real or personal property. At its current rate of \$2.50 per \$500 value of transaction, the County’s recordation tax is the lowest in the state. Based on current revenues (without factoring in APFO impact), a 25-cent increase to the tax will generate approximately \$2.4 million in additional revenue in the General Fund. Furthermore, an increase to the recordation tax has minimal impact on current residents.

Like the recordation tax, the County levies a 1% transfer tax on all instruments conveying property in addition to the state’s 0.5% levy. The County’s tax rate is on par with most of the jurisdictions in the state. However, there are some jurisdictions that charge up to 1.5% transfer tax rates, leaving some potential room to increase the rate. The Committee recommends that the County examine the current transfer tax rate and review the current allocation formula that is set by the state. Based on current revenues, an increase of a tenth of a percent will generate an additional \$3.2 million in revenues. Unlike the recordation tax, transfer tax revenues are not General Fund revenues. Instead transfer tax revenues are designated to the County’s capital budget plan.

The Committee also recommends reviewing and potentially raising public-school facilities surcharge and the building excise tax. The purpose of the building excise tax and the public-school facilities surcharge is to defray the costs of additional and expanded facilities or capital needs created by new residential and non-residential development. Such revenues are designated for school construction and road repairs and construction respectively. The current rate for the public-school facilities surcharge and building excise tax are \$1.32/sq. ft. and \$1.40/sq. ft. respectively. Howard is one of only a few counties that continue to charge on a per square foot basis. Other jurisdictions have moved to a flat rate based on the size of the development. In comparing revenues generated by other jurisdictions, the County’s revenues are significantly lower than other jurisdictions. The County’s State Delegation recently introduced a bill in the General Assembly seeking to increase the rate of the School Facilities Surcharge to \$4/sq. ft. The Committee supports considering raising both school surcharge and excise tax and making them comparable to other jurisdictions to provide needed support to school projects and road projects. As presented by the Department of Public Works, the need for road repair and construction in the county continues to grow with a large backlog of projects that need to be addressed with insufficient funding to support such needs.

Note that the potential amount generated by raising the above taxes will likely be mitigated by APFO amendment. Besides the options listed, the County should also explore other taxes or fees that are not comparable with other jurisdictions and seek opportunities to enhance revenues to support critical needs.

## **Expenditure Control**

**Howard County Public School System (HCPSS) budget and balanced needs:** County funding to HCPSS is approximately 58% of the total General Fund budget, which includes debt service and retiree health benefits for HCPSS employees. Total County spending on education, which includes the Howard County Library System and the Howard County Community College, represents approximately two-thirds of the General Fund budget. The Board of Education's FY 2020 budget request for County funding is \$689.3 million, which represents an \$89.3 million, or approximately a 15% increase from the approved FY 2019 budget. The amount includes \$11.2 million County funding increase for the state mandated Maintenance of Effort (MOE). The Board of Education (BOE) requested level of County funding above MOE in FY 2020 almost doubled the total above MOE amount approved in the past 10 years.

The Committee acknowledges that education remains the County's top budget and policy priority. However, Howard County is a "full service county" and shifting demographics requires the County to address a variety of needs. While continuing to make education a priority, it should not come at the expense of other critical services. Meeting the full request from HCPSS would require a significant increase of County taxes (equivalent of increasing a median household's property tax by \$750 per year) or greatly compromising or eliminating other critical services. The Committee expects that in future years the HCPSS develops their budget request in concert with other County policy makers and department in order to produce a budget that acknowledges the financial reality that the County faces. All County departments were required to submit budget requests that support priorities but reflect this current fiscal reality and must find savings and innovative solutions to live within it. The HCPSS should not be excepted from this.

- **Grow Fund Balance:** The Committee recommends that the County spend under projected revenues and reserve a portion of the annual revenue increase in order to grow the fund balance. As the County heads into a post-APFO amendment era and a potential recession, maintaining and growing a healthy fund balance will be critical to allowing the County some budget flexibility to address the upcoming economic challenges and ensure that the County maintain its current level of services and commitments to priorities without making severe cuts to critical services to its residents. Growing the fund balance is also critical in maintaining the County's AAA bond rating, as it demonstrates to the credit rating agencies that the County has the capacity to face an economic down turn without drastic actions or dipping into the Rainy-Day Fund (which is equivalent of only 3.5 weeks of cash flow). It is imperative that the County avoid dipping into the Rainy-Day Fund, which would be perceived negatively by rating agencies, investors and professionals and would hamper not only credit ratings but also the County's overall fiscal position.

## **Multi-Year Planning**

- **General Obligation Bond Study:** The Committee continues to urge the County to review its existing authorized GO bonds in order to determine whether further deauthorizing some would allow the County to free debt capacity. The Committee is encouraged that since its recommendation three years ago, the County has decreased authorized but unissued bonds from \$381 to \$213 million. However, the current financial climate will require more fiscal prudence from the County. The Committee recommends that the County review its existing authorized bonds and promote and focus on those that are of critical need and not an amenity or spotlight project. The Committee is recommending this as available resources for

CIP financing will continue to decrease in the long-term due to APFO and the desire to add more GO bonds for vanity projects could further constrain the capacity of the operating budget.

- **Revenue/Expenditure Multi-Year Projections:** Following the Committee’s recommendations last year, the County developed a multi-year projection of both revenues and expenditures incorporating input from all stakeholders of County revenues such as County agencies, the Howard County Public School System, the Howard County Community College, and the Howard County Library System. Before the implementation of APFO, the County was already predicting a structural gap in out years between revenues and expenditures. Starting in FY 2022, the County will begin to feel the impact of APFO on key County revenue sources. The County’s population and need for services continues to grow. There comes a point in which expenditures can be reduced only so much without impacting services. The Committee believes that the County needs to work with all stakeholder collectively and develop a long-term fiscal plan jointly that addresses priority needs of the community and is fiscally sustainable.

### **Other / Innovative Approaches**

- **Innovative Initiatives:** The Committee recommends that the County continue to invest in green buildings and other potential innovative solutions, such as increasing investment in technology, for savings and efficiency gain. The Committee also recommends that the County set goals for these green initiatives, such as reducing overall energy consumption by 2% annually. While these projects do create an initial cost to the County, federal and state programs are available to help defer some of those costs. The Committee also recommends that the County complete a study of all available energy efficiency projects and do a cost benefit analysis so whether the implementation of green initiatives will reduce energy spending.

### **Communications and Engagement**

- **Outreach and on-going meetings:** For the first-time last year, members of the Committee met with various county organizations, businesses, and media, to engage and educate the public regarding the County’s financial health and challenges to which it faces, such as those in this report, and seek their input regarding potential options and solutions. The Committee recommends that this year, the County and members of the Committee continue their efforts to educate the public on the County and its challenges.

The Committee also agrees with the recommendation made in the Transition Team Report stating that the Committee become a standing committee that meets regularly throughout the year, providing insight on revenues, economic indicators, and other data to the County Executive and County Council.

We would like to thank all the Committee members for their time and effort providing valuable insight and thoughtful ideas which will help inform County decision makers as they undertake today’s challenges and opportunities. We also want to thank all of the presenters who shared valuable information and analysis with the Committee.

## **II. DETAILS / BACKGROUND**

### **1. Economic Outlook**

The Howard County Budget Office retained Richard Clinch, PhD, Director of the Jacob France Institute at University of Baltimore to prepare a County personal income projection through Fiscal Year 2021 and a report on overall national, state and regional economic trends and their expected impact on the County's economy and government finances. This report was prepared to provide personal income and economic data to inform the County's Spending Affordability Committee and process. The key findings of this analysis are as follows:

#### National Economy

- The national expansion continued in 2018, supported by procyclical, expansionary monetary and fiscal policy. Real Gross Domestic Product (GDP) is on pace to expand by 3 percent in 2018 and employment increased by 1.7 percent;
- Both Moody Economy.com and the Maryland Board of Revenue Estimates (BRE) are projecting continued national growth in both real GDP and employment nationally in 2019 and 2020;
- Moody's projects that U.S. real GDP will grow by 3.0 percent in 2018, by 2.7 percent in 2019 and 0.9 percent in 2020, with BRE projecting real GDP of 2.9 percent, 2.6 percent, and 2.0 percent respectively;
- Moody's projects that U.S. employment will grow by 1.6 percent in 2018, by 1.4 percent in 2019 and by 0.4 percent in 2020 and the BRE projects growth of 1.6 percent, 1.4 percent and 1.1 percent respectively.

#### State Economy

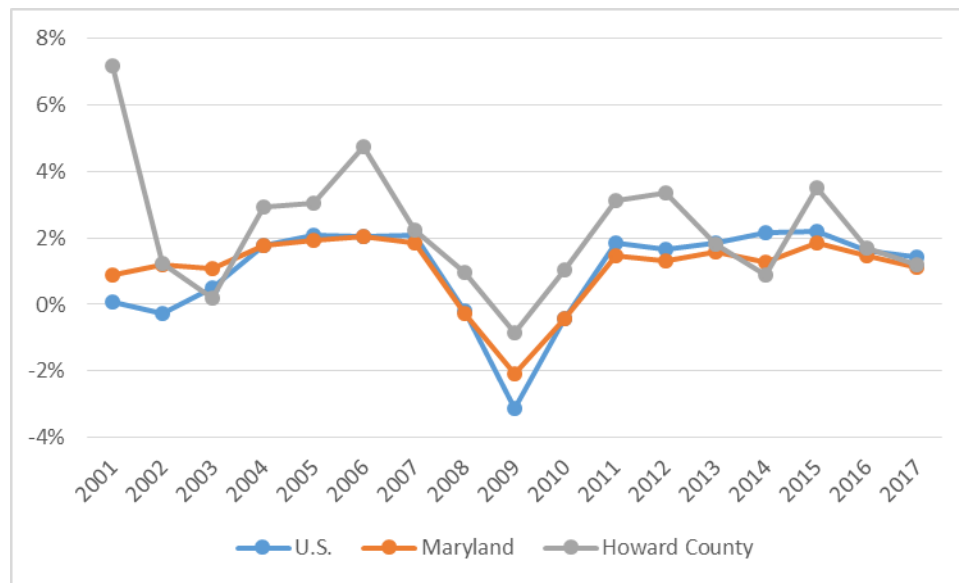
- Both Moody's and the Maryland BRE are projecting continued, but slower than national, personal income and employment growth in Maryland 2020;
- Moody's projects that Maryland personal income will grow by 3.9 percent in 2018, by 4.8 percent in 2019 and 3.4 in 2020 and that Maryland employment will increase by 0.6 percent, 1.1 percent, and 0.4 percent over the same period;
- The BRE projects that Maryland personal income will grow by 3.7 percent in 2018, by 4.2 percent in 2019 and 4.0 in 2020 and that Maryland employment will increase by 0.8 percent, 0.8 percent, and 0.6 percent respectively;

#### Howard County Economy

- While long term patterns of population, income and employment growth remains positive, some recent trends are troubling:
  - While Howard County remains Maryland's most affluent jurisdiction in terms of median household income, the County's median income fell from \$119,383 in 2016 to \$111,576 in 2017 and for the first time in a decade, the County is no longer among the top ten counties nationally in terms of median household income;

- Slower workforce growth and slower population growth in the County will likely continue.
- Despite a continuing national economic expansion, multiple risks – including slow economic growth at the State level; shutdown and deficit-related risks to federal spending; and the risk of an economic slowdown or even recession – call for continued caution in County spending growth; and
- Two scenarios were provided. If no recession incurs in next several years, County personal income is projected to grow by 3.9 percent in FY2019, 3.7 percent in FY2020, 3.1 percent in FY2021 and by 3.2 percent in FY2022. If a mild economic slowdown occurs in 2020, alternative growth forecasts are lower for FY 2020 and FY2021 with 3.0% in FY2020 and 2.4% in FY2021 respectively.

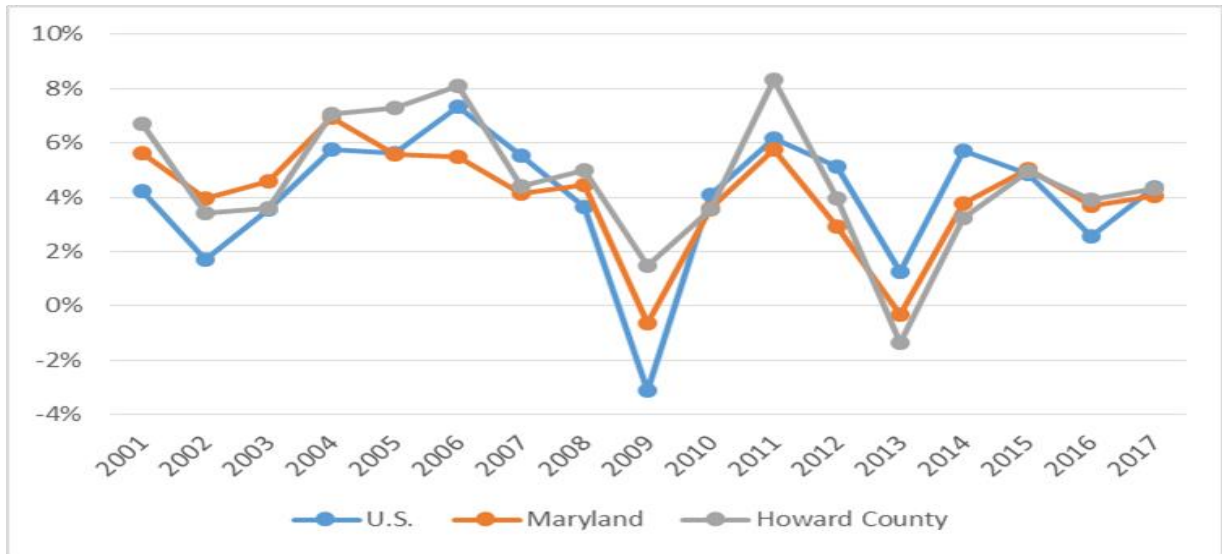
**Chart: Total Employment Growth – U.S., Maryland, and Howard County**



- Maryland and Howard County unemployment rates have been below the national average nearly continuously since 2001; however, in the recovery from the Great Recession, the gap narrowed and for most of 2018 Maryland's unemployment rate was actually higher than the national average;
- Howard County's unemployment rate at 2.7 percent remains well below the national (3.5 percent) and Maryland (3.5 percent) rates;
- Maryland lost fewer jobs than the nation in the Great Recession, but its employment growth has consistently lagged the nation throughout the recovery, and after lagging the nation in 2013 and 2014, employment growth rates in Howard County returned to levels above national and state level in both 2015 and 2016 but returned to lower than national rates in 2017. However, while unemployment remains below and recent employment growth returned to rates above the national average, personal income growth in Howard County lagged the nation for five of the last eight years;
- The County currently faces multiple local constraints on growth, including:
  - Decline in median household income (which fell from \$119,386 in 2016 to \$111,576 in 2017, and from 2<sup>nd</sup> highest county in the nation to the 13<sup>th</sup>);

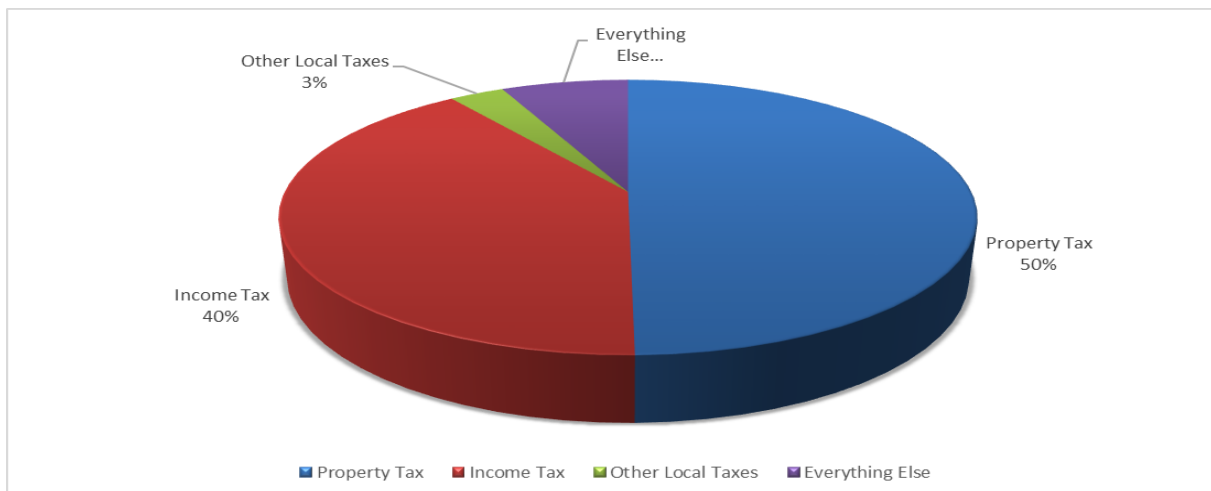
- Workforce is at full capacity with high labor force participation (71%) and very low unemployment (2.7%)
- Slow workforce growth (0.7%);
- Potential impact from anticipated significant slowdown in population and new development growth in coming years due to APFO;
- Uncertainties on Federal spending and policies.

**Chart: Personal Income Growth – U.S., Maryland, and Howard County**



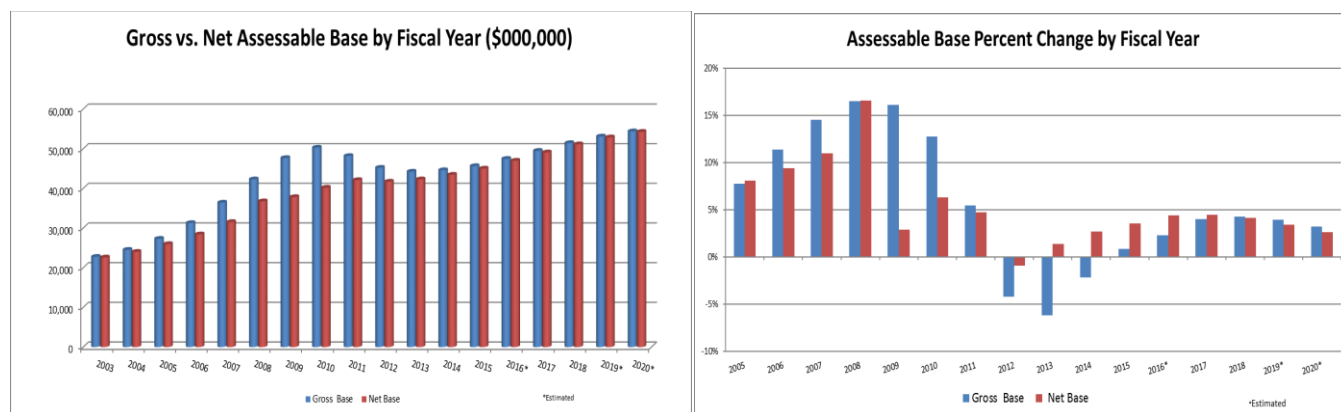
## 2. Revenue Outlook

Howard County's General Fund revenues rely primarily on two sources, property tax (50%) and personal income tax (40%). These two revenue sources have made up approximately 90% of overall revenues over the last few years and the trend will continue going into FY 2020. The County forecast for General Fund growth in FY 2020 over FY 2019 budget is 2.7%. However, the Committee reduced the forecasted growth to 1.75% due to various uncertainties including risks in assumed personal income tax gains as stated below.



Property Tax reassessment has continued to slow down and lagged the state average for the fifth straight year. The net assessable base for FY 2020 is projected to grow at 2.4% over FY 2019, continuing the County's slow property tax growth post-recession. The State Department of Assessments and Taxation reassessed Group 1 at 8.5% (State 9.1%) at full value, or 2.8% on average in the next three years. The residential reassessment of 8.1% before three-year phase-in was slightly lower than the state average of 8.2%. The commercial base reassessment of 9.9%. It is the first time since 2013 that the County's commercial base did not have a double-digit reassessment and lower than the state average of 12.5%.

One major issue is that with homestead tax dropping from over \$100 million years ago to less than \$3 million per year, the County no longer has any cushions and could suffer immediate and significant revenue impact if there is another housing market downturn. Further, property tax growth is expected to slow down dramatically starting from 2022 when amended APFO would cause approximately 75% of new development to pause during the four-year moratorium.



Personal Income Taxes recovered slightly from a poor performance of the tax in FY 2018. This is in major part to the increased revenue from the federal tax plan that has gone into effect. FY 2020 will continue to see slightly improved year over year performance. However, the impact of the recent and potential Federal shutdown on income taxes from federal employees and contractors remains uncertain. The other issue facing the county is a shift in demographics that seeing a shift of lower income employees replacing higher income and retirement level employees. This shift might have contributed to the recently released data which shows that the County's median household income decreased from \$119k to approx. \$112k. This overall reduction in personal income has direct impact on total personal income tax revenue and is causing the continued slow to moderate growth in year over year revenues. Furthermore, the concern of a recession in 2020-2021 has further reduced the projection in FY 2020 and beyond as the County heeds the Committee's warning of using caution and fiscal prudence during this time of uncertainty.

In its growth projection in out years, the County has taken into account the negative impact of the Wynne case. The County is estimating annual revenue losses of approximately \$1.5- \$2.0 million from tax payers filing tax return applications based on the Wynne case results. In addition, the County has historical liabilities of approximately \$9 million based on processed and approved cases, according to the State Comptroller's Office. All counties will begin installment payments for historical liabilities starting in May 2021.

Other revenues are projected to either stay relatively flat or experience minor growth. Overall, taxes such as Hotel/Motel tax will likely grow at approximately 2%. The Governor's FY 2020 proposed budget restored \$1.9 million of highway revenues in direct aid to the County. Other than that, revenues are expected to experience minor changes.

### 3. Debt Indicators

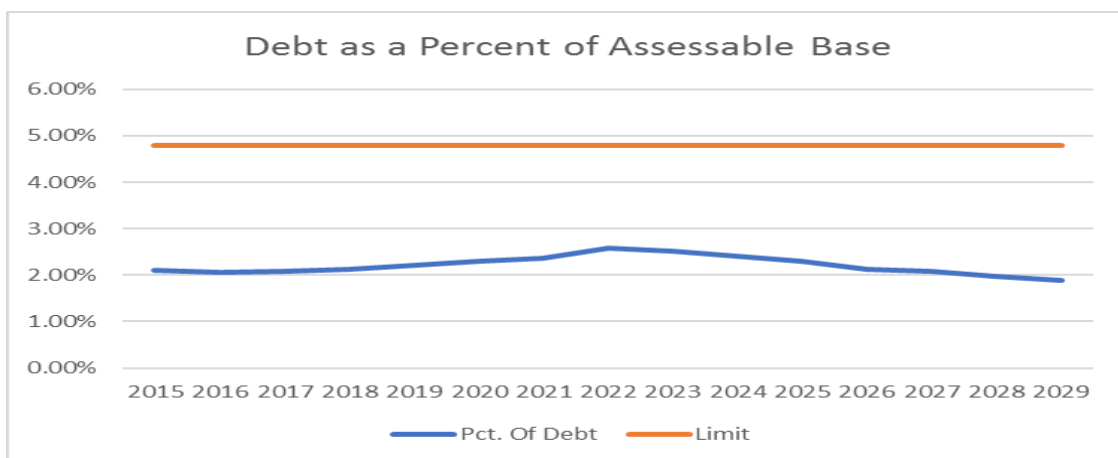
In order to determine Howard County's relative debt position, the Committee in past years has evaluated the County's debt based on measures used and published by Moody's Investor Service and International City/County Management Association publications. Four measures have been used to evaluate the County's debt burden and debt affordability:

- Debt measured as a percent of the County's assessable base. The current County charter limit is set at 4.8 percent of assessed value.
- Debt measured against the population on a per capita basis. Per capita debt exceeding \$1,200 (unadjusted for inflation over the past 10 years) may be considered excessive by rating agencies.
- Per capita debt measured as a percent of the jurisdiction's per capita personal income. This measure should not exceed 10 percent in the view of many analysts.
- Debt Service as a percent of current revenues. This is the most important debt indicator among the four listed. Ten percent or below is considered an appropriate level, with 15 percent and above regarded a danger point.

The latest values of these four debt indicators are listed below. (Note: The previous year's measures are shown in brackets []).

#### Measure #1: Debt as a Percent of the Assessable Base

As of June 30, 2018, [2017], Howard County had an assessable base of **\$51,518,005,000** [\$49,626,808,995] and a General Obligation (GO) Debt of **\$1,097,356,552** [\$1,037,717,374]. This means that the ratio of debt to base was **2.13%** [2.09%] of assessed value versus the 4.8% limit. Preliminary projections indicate that this measure will remain relatively low in coming years.



#### Measure #2: Debt measured against the population on a per-capita basis.

As of June 30, 2018, [2017], Howard County had a population of 321,113 [317,233] and a General Obligation Debt of **\$1,097,356,552** [\$1,037,717,374] generating a per-capita debt of **\$3,417** [\$3,271].

#### Measure #3: Per-capita debt measured as a percent of per-capita income

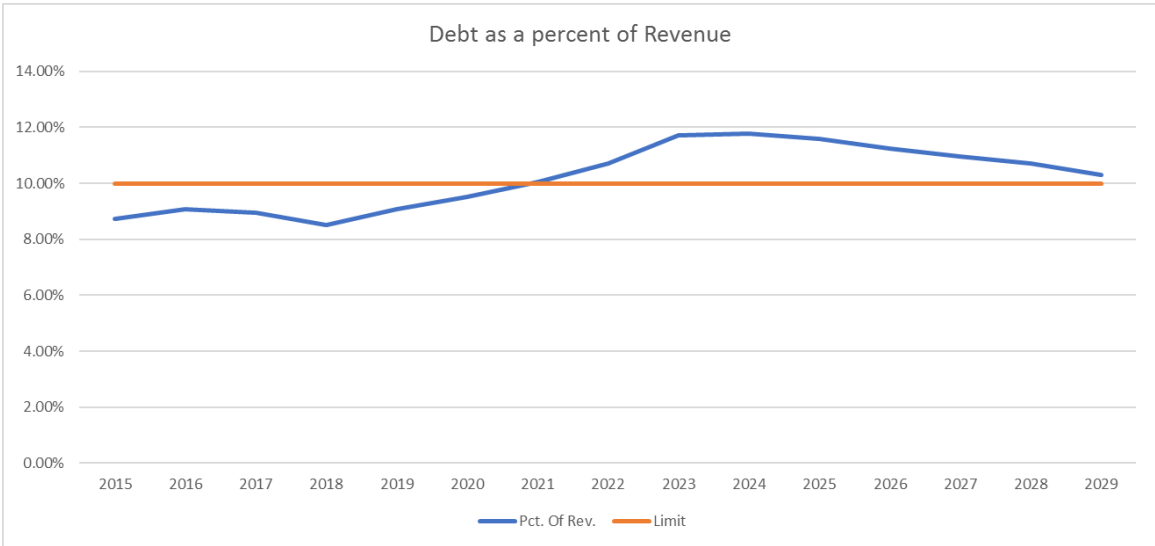


As of June 30, 2018, [2017], Howard County residents had an estimated per-capita personal income of **\$69,772** [\$67,341] and a per-capita debt of **\$3,417** [\$3,271] equaling a per-capita debt of **4.90%** [4.86%] of per-capita income.

**Measure #4: Debt Service as a percent of current revenues.**

In FY 2018 [2017], the County received **\$1,212,554,099** [\$1,199,852,241] in revenues from the General Fund, Fire and Rescue Fund, and Environmental Service Fund and paid debt service of **\$103,350,391** [\$107,464,406]. Thus, debt service equaled **8.52%** [8.96%] of current revenues. This debt indicator is the most important measure of the four, indicating not only debt affordability but also the ability of the General Fund to support other strategic priorities (after dedicating resources to debt obligations).

This indicator is projected to grow continuously partly driven by existing authorized but not issued GO bonds and increased current and future capital needs from HCPSS and the County. Adding the new courthouse project will cause the County to exceed the 10% policy target in FY 2023 – FY 2026, going above 11% for those years. After the completion of the courthouse, this indicator is expected to trend down and fall below 10%. It is worth noticing that 10% is a self-imposed policy ceiling and exceeding it temporarily is not predicted to cause any immediate changes in County credit ratings. Nevertheless, the Committee is aware of the tight debt capacity based on current revenue streams and CIP needs.



**4. Multi-Year Projections**

The County’s budget office developed multi-year projections based on historical trends and anticipated drivers of revenue growth and expenditures. Preliminary projections show that General Fund revenue growth will continue a moderate growth of approximately 1.7%-2.6% per year during the FY 2021~FY 2025 period, averaging 2.2% per year. This long-term projection factored in projected impact of APFO on key General Fund revenues and a mild impact from an impending recession, whose timing and scale remain uncertain.

This level of revenue growth is still regarded as solid growth by national standard. However, it will not meet the expenditure demands in current and future years. Major cost drivers include increased needs in education, rapidly growing debt service payments, growth in compensation and fringe benefits for employees, and increasing needs of various services for the community. It is imperative that the County continues to work with key stakeholders to find ways to live within its means while supporting critical services. It is time for

the County, as a whole, to review core processes and services and find efficiencies and reduce costs. At the same time, the County needs to find ways to use its excellent resources and services to continue to attract high quality businesses, employees, and residents.

As in all models, the multi-year projection scenarios listed are based on a set of assumptions that could change when new information becomes available or the impact of changes in policy are considered. Nevertheless, this modelling provides a tool useful in identifying the affordable level of growth and understanding the implications of different scenarios.

### **Howard County Revenue/Expenditure Growth Projection Model**

The County's Budget Office develops multi-year projections for its General Fund. The following model shows updated FY 2018 actuals and FY 2019 revenue projections as of February 2019. The model also includes preliminary projections for FY 2020 – FY 2025. In terms of expenditures, the County is required to pass a balanced budget annually with the expenditures staying within projected revenues. It is important to note that while these projections are based on logical assumptions today, the County still faces uncertainty in regard to the impact of APFO on both revenues and expenditures, potential recessions during 2020-2021, and other economic factors that the County is reliant on.

Details of the multi-year revenue projections and one of the many possible expenditure scenarios that match the projected revenue growth are shown below.

#### **General Fund Multi-Year Projections (\$000)**

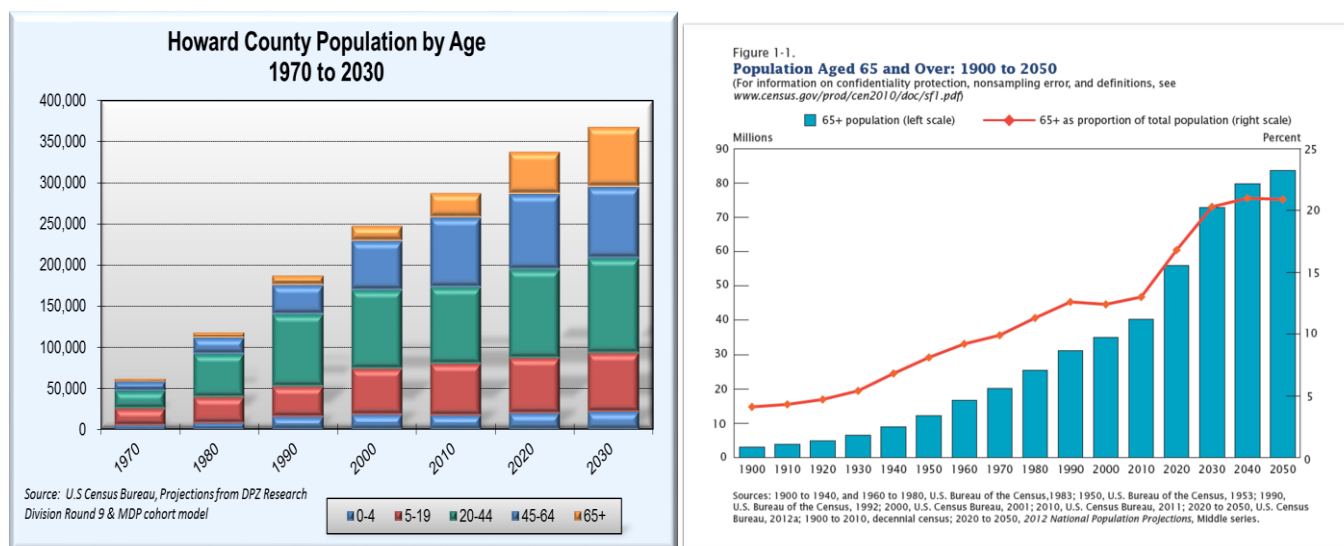
(\$ in thousands)	<b>Actual</b>	<b>Budget</b>	<b>Projected</b>	<b>Projected</b>					
	<b>FY 18</b>	<b>FY19</b>	<b>FY 19</b>	<b>FY 20</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 24</b>	<b>FY 25</b>
Property Taxes	533,685	550,178	551,870	562,926	577,000	591,425	602,168	613,643	626,366
Income Taxes	444,453	454,296	456,117	470,907	482,680	499,092	512,161	525,906	540,649
Other Local Taxes	32,941	32,251	31,843	32,250	32,250	31,950	28,550	28,450	28,650
State Shared Taxes	1,596	1,621	1,620	3,544	3,597	3,651	3,706	3,761	3,818
Charges / Permits	35,205	34,124	32,655	32,573	32,589	32,656	32,724	32,795	32,867
Investments/Transfers	43,271	44,895	45,895	45,452	46,315	46,751	47,189	47,630	48,072
<b>Total Revenues</b>	<b>1,091,151</b>	<b>1,117,365</b>	<b>1,120,000</b>	<b>1,147,653</b>	<b>1,174,431</b>	<b>1,205,525</b>	<b>1,226,498</b>	<b>1,252,185</b>	<b>1,280,422</b>
				2.7%	2.3%	2.6%	1.7%	2.1%	2.3%
Education	637,809	644,578	644,578	656,869	667,133	679,766	690,349	701,697	714,649
Public Safety	132,171	138,183	138,183	140,808	142,921	145,779	142,863	145,292	148,053
Public Works	69,227	71,828	71,828	73,193	74,291	75,776	74,261	75,523	76,958
Community Services	66,669	73,669	73,669	75,069	76,195	77,719	76,164	77,459	78,931
General Government	28,752	29,535	29,535	30,096	30,548	31,159	30,535	31,054	31,645
Legislative & Judicial	27,754	28,870	28,870	29,419	29,860	30,457	29,848	30,355	30,932
Debt Service	110,684	112,224	112,224	123,224	134,224	145,224	163,224	171,224	179,224
NonD / Other	17,063	18,477	18,477	18,976	19,261	19,646	19,253	19,580	20,030
<b>Total Expenditures</b>	<b>1,090,128</b>	<b>1,117,365</b>	<b>1,117,365</b>	<b>1,147,653</b>	<b>1,174,431</b>	<b>1,205,525</b>	<b>1,226,498</b>	<b>1,252,185</b>	<b>1,280,422</b>
<b>Surplus/Deficit</b>	<b>1,023</b>		<b>2,635</b>						
<i>Note:</i>									
1. Both revenues and expenditures excluded one-time use of Fund Balances.									
2. Revenue projections factored in projected foregone revenues from APFO amendment based on preliminary consultant study.									
3. All expenditure projections are shown for illustration purpose and do not represent long-term fiscal plan.									

## **5. Demographic and economic development trends**

The Department of Planning and Zoning's presentation on key demographic and economic trends continues to emphasize the concerns that this Committee has had over the last few years. These trends will have significant impact on the County's near and long-term fiscal condition and should be a basis for the development of the operating and capital budget.

Examination of the County's demographics clearly indicates that our population is aging. While this is a national trend and not specific to Howard County, the County's population is aging much faster. Reports by the Maryland Department of Planning and the U.S. Census Bureau both project that the population over the age of 65 will nearly double by 2050, growing nationally from 43 million in 2012 to 84 million in 2050. The County's Department of Community Resources and Services conducted a similar study and projected that the population over the age of 65 will double within the County by 2025.

While the County encourages aging in place, an increase of residents over the age of 65 presents new fiscal challenges. As residents retire and age in place, retiree contributions to County revenues collected from the personal income tax decrease as retirees tend to generate less taxable income. Also, as this demographic continues to grow, the County needs to increase core services that specifically target and support this group of residents.

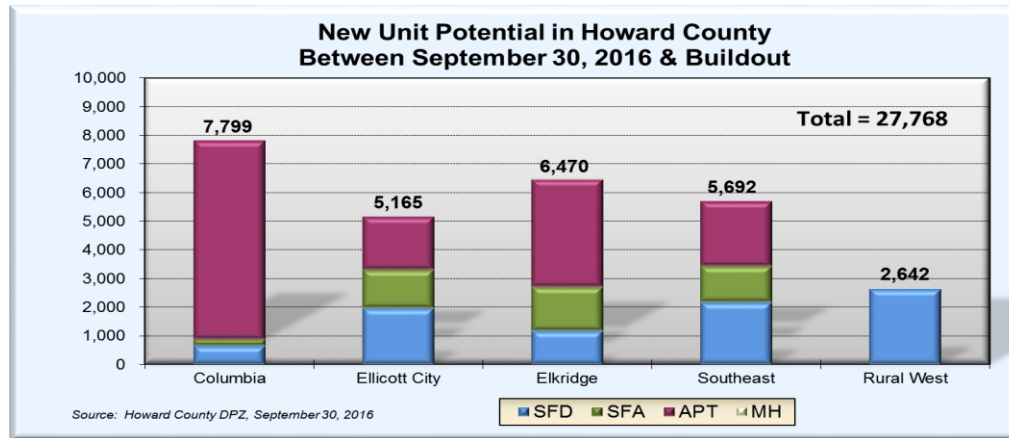


The aging population of the County is only one of our demographic challenges. Another is the increase in the number of school-aged children. Based on data provided by the HCPSS, the growth rate in student enrollment from 2010 to 2020 (projected) averages 1.5% per year. This enrollment growth rate, coupled with the current fiscal climate of the County, places the HCPSS under increased pressure to effectively meet student needs. Moreover, the number of students receiving Free and Reduced Meals, special education services, and other educational supports has been rising. The demographic enrolling in Howard County schools mirrors the rise in multifamily dwellings and reduced household earnings.

Consequently the County's budgets are pressured from both ends of the demographic spectrum: increasing operating and infrastructure needs for the HCPSS, and rising service demands for aging adults.

Moreover, the County's overall population has been growing at 1.6% on average in the past several years, demanding an increase in the full spectrum of County services ranging from public safety, public works, and health and human services to recreation and parks. Excluding new School Resource Officers to enhance school security, the Police Department's addition of sworn officers in the past four years grew by only 0.1% per year due to fiscal constraints. With limited investment, the road repair inventory exceeded \$53 million in 2018. The County's Community Service Partnership program continues to receive a significant increase in grant requests to meet growing human service needs. How to address and balance these competing community needs with limited resources will remain a critical fiscal challenge for the County.

The next economic trend the Committee observed is the shift of planned development activity from single-family to multi-family housing. Two factors contributing to this shift are limited zoned acreage for single-family detached residential development and changing demographics in the continued influx of residents migrating to the County. Since 2010, residents moving into the County, on average have lower incomes than residents leaving the County, thus creating more demand for multi-family over single-family detached dwellings. With the increasing population and decreasing income levels, the County and the HCPSS are experiencing greater strain on financial resources to meet the needs.



(SFD – Single Family Detached; SFA – Single Family Attached; APT- Apartment; MH – Mobile Homes)

Finally, the County followed the Committee’s recommendation last year and hired a consulting firm to conduct a thorough analysis of short-term and long-term fiscal impact of the APFO amendment passed in 2018, which will delay new development significantly starting from 2022. Preliminary studies of the consultants indicate \$1.2 billion of forgone revenues in 20 years and \$138 million in next six years based on key revenues alone (as shown in the table below). The consultants are still in the process of conducting expenditure impact analysis and the overall net gain/loss evaluation. Once the study is finished, it should provide important information that impact the County’s long-term fiscal planning, including anticipated impact on both revenues and expenditures (services).

	FY20-25 6-Yr Total	FY20-FY39 20-Yr Total	FY22 2021	FY23 2022	FY24 2023	FY25 2024	FY26 2025	FY27 2026	FY28 2027	FY29 2028	FY30 2029	FY31 2030	FY32 2031	FY33 2032	FY34 2033	FY35 2034	FY36 2035	FY37 2036	FY38 2037	FY39 2038
<b>Operating Budget</b>																				
Property Tax	(40.7)	(582.6)	-	(7.0)	(13.8)	(19.9)	(27.2)	(31.0)	(35.5)	(38.3)	...	(42.5)								(42.5)
Income Tax	(22.6)	(323.9)	-	(3.9)	(7.7)	(11.1)	(15.1)	(17.2)	(19.7)	(21.2)		(23.7)								(23.7)
Recordation Tax (to update)	(11.4)	(32.2)	(0.3)	(3.7)	(3.8)	(3.6)	(4.3)	(2.5)	(3.0)	(2.2)		(1.0)								(1.0)
Fire Tax	(7.1)	(101.1)	-	(1.2)	(2.4)	(3.5)	(4.7)	(5.4)	(6.2)	(6.6)		(7.4)								(7.4)
<b>Total General Fund</b>	<b>(74.7)</b>	<b>(938.8)</b>	<b>(0.3)</b>	<b>(14.6)</b>	<b>(25.2)</b>	<b>(34.6)</b>	<b>(46.6)</b>	<b>(50.6)</b>	<b>(58.2)</b>	<b>(61.7)</b>		<b>(67.2)</b>								<b>(67.2)</b>
<b>Total Operating Budget</b>	<b>(81.8)</b>	<b>(1,039.9)</b>	<b>(0.3)</b>	<b>(15.8)</b>	<b>(27.6)</b>	<b>(38.0)</b>	<b>(51.4)</b>	<b>(56.0)</b>	<b>(64.3)</b>	<b>(68.3)</b>		<b>(74.5)</b>								<b>(74.5)</b>
<b>CIP &amp; House Renewal Program</b>																				
Transfer Tax	(22.8)	(64.5)	(0.6)	(7.5)	(7.6)	(7.1)	(8.6)	(5.0)	(5.9)	(4.4)		(2.0)								(2.0)
School Surcharge	(15.7)	(26.6)	-	(5.6)	(5.3)	(4.7)	(5.5)	(2.5)	(3.1)	(1.7)		0.1								0.1
Road Excise Tax	(18.2)	(30.3)	(0.4)	(6.4)	(6.0)	(5.4)	(6.3)	(2.8)	(3.5)	(2.0)		0.2								0.2
<b>Total CIP/House Program Sources</b>	<b>(56.7)</b>	<b>(121.3)</b>	<b>(1.0)</b>	<b>(19.5)</b>	<b>(18.9)</b>	<b>(17.3)</b>	<b>(20.4)</b>	<b>(10.3)</b>	<b>(12.5)</b>	<b>(8.0)</b>		<b>(1.7)</b>								<b>(1.7)</b>
<b>Total Revenue Forgone due To APFO Amendment</b>	<b>(138.4)</b>	<b>(1,161.2)</b>	<b>(1.3)</b>	<b>(35.3)</b>	<b>(46.6)</b>	<b>(55.3)</b>	<b>(71.7)</b>	<b>(66.3)</b>	<b>(76.8)</b>	<b>(76.3)</b>		<b>(76.3)</b>								<b>(76.3)</b>